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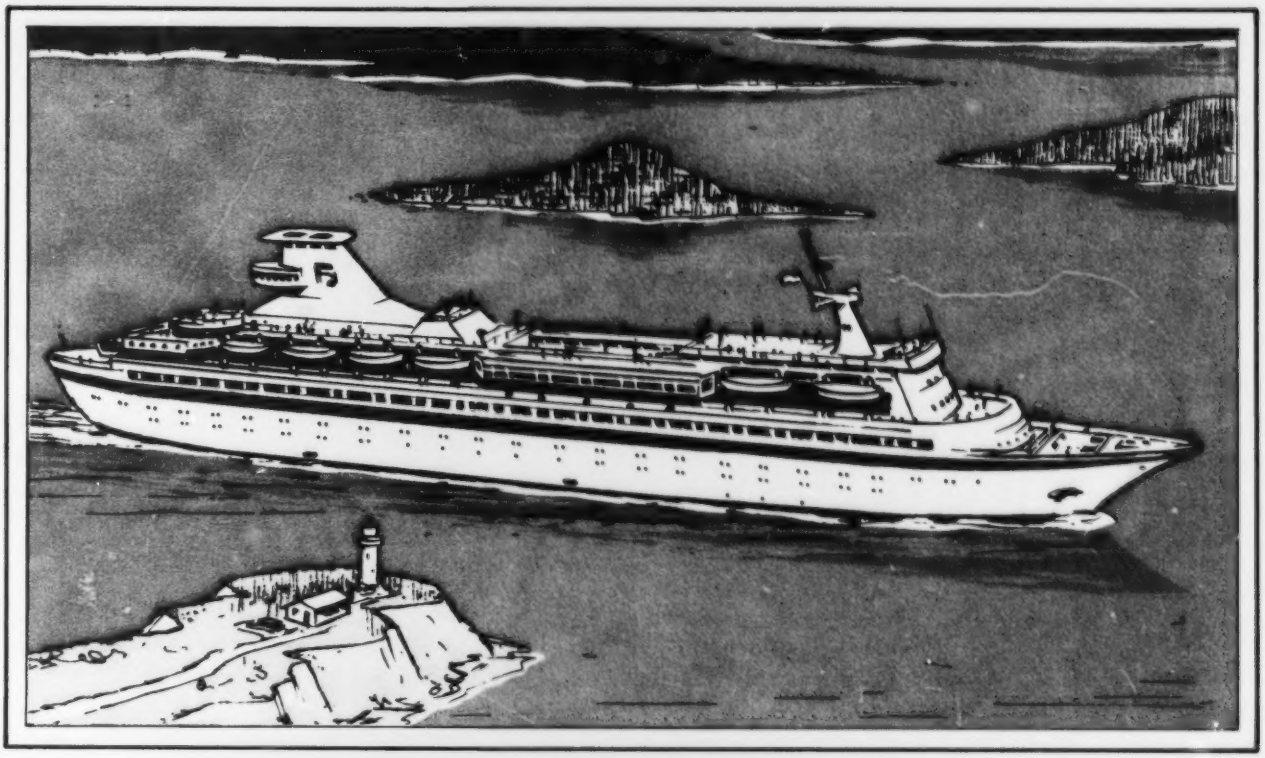

CRUISE SHIP INDUSTRY EXECUTIVE SUMMARY

ECONOMIC & REGIONAL DEVELOPMENT AGREEMENT

Canada

BC

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CANADA-BRITISH COLUMBIA TOURIST INDUSTRY
DEVELOPMENT SUBSIDIARY AGREEMENT

B.C. CRUISE SHIP INDUSTRY
EXECUTIVE SUMMARY

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The Canada-British Columbia Tourist Industry Development Subsidiary Agreement is one in a series of subsidiary agreements under the Economic and Regional Development Agreement (ERDA) signed in November 1984, between the governments of Canada and British Columbia.

The responsibility for the content of this report is the consultant's alone, and the conclusions reached herein, do not necessarily reflect the opinions of those who assisted during the course of this investigation or the federal and provincial governments which funded the study.

Government of Canada | Gouvernement du Canada

Regional Industrial Expansion | Expansion industrielle régionale

Province of British Columbia

EXECUTIVE SUMMARY

A. PURPOSE OF THE STUDY

The three major objectives of this study are:

1. To prepare a development strategy to foster the growth of the cruise industry in B.C.

2. To increase the awareness of ports of the development potential in the cruise ship industry.

3. To increase the awareness of cruise ship companies of B.C. ports and marine destinations.

Three distinct reports have been prepared to meet the study objectives. The purpose of this report is to outline a development strategy for the B.C. cruise ship industry and to increase the awareness of the development potential of the cruise ship industry among representatives of B.C. ports.

The purpose of the second report is to increase the awareness of B.C. ports and marine destinations among cruise ship companies. The second report is entitled B.C. Ports And Cruise Destinations and is intended to be distributed to cruise lines that currently or could potentially offer cruises in B.C.'s coastal waters. In order to provide a more detailed description of the legislation impacting on the cruise ship industry, a third report entitled Review of Legislation of the B.C. Cruise Ship Industry has also been prepared.

B. DESCRIPTION OF CRUISE SHIP INDUSTRY

The major characteristics of the cruise ship industry are as follows:

1. The total number of cruise passengers that embarked from major cruise destinations in the world has increased by approximately

11.9% per year from 1.58 million passengers in 1981 to an estimated 2.71 million passengers in 1987.

2. The greatest area of growth in the cruise industry has occurred in North America.

   Cruise ship passengers embarking from North America in 1987 accounted for 86% of the total number of cruise passengers in the world.

3. The Caribbean is the most popular cruise destination in the North American market.

   The Caribbean accounted for 34.7% of the total number of passengers handled in 1986 by cruise lines belonging to the Cruise Lines International Association (CLIA).

   The next most popular destinations in 1986 were the Bahamas (20.4%) and Mexico (13.2%). Alaska was the fourth most popular destination and accounted for 6.7% of all cruise passengers handled by CLIA member cruise lines in 1986.

4. According to the Cruise Lines International Association, the total revenues earned by its member lines in 1987 are estimated to be $5 billion ($U.S.).

5. In 1987, there were a total of 118 cruise ships in the world that provided a total of 80,700 berths for cruise passengers.

6. In order to meet the strong growth in demand, the industry is currently accelerating its rate of capacity expansion.

   There are a total of 23 ships on order. These new ships will provide an additional 19,700 berths, thereby increasing total berth capacity by 24%.

7. The overall outlook for the cruise industry appears promising.

The major factors contributing to the optimistic outlook for the cruise industry are as follows:

a. Only 5% of North Americans have ever taken a cruise.

b. Cruises demonstrate the highest satisfaction level of all vacation types.

c. The recent decline in the buying power of the U.S. dollar and the current political unrest in other countries such as the Middle East have motivated Americans to take vacations in their own country.

d. Cruises have an all inclusive price and are simple and convenient for the consumer to purchase.

e. Cruises represent good value when compared to other vacations.

f. Due to the large advertising budgets of cruise lines, the awareness and interest in cruising by North American consumers is increasing and will continue to increase.

g. Cruises are the most profitable travel product for a travel agent to sell.

Due to the higher profitability of cruises, travel agents are more motivated to sell cruises than other vacation products.

The Cruise Lines International Association has projected that the cruise industry in North America will grow by 14% per year over the next five years.

C. CHARACTERISTICS OF B.C./ALASKA CRUISE MARKET

Our major findings regarding the characteristics of the B.C./Alaska cruise market are as follows:

1. The cruise ship traffic in B.C. is presently based almost entirely on Alaska as the primary destination.

2. The direct economic benefits of the B.C./Alaska cruise industry to Canada are estimated to range between $66.4 to $85.3 million ($Cdn.)

   Of this total, expenditures by cruise passengers are estimated to range from $30.3 to $43.6 million ($Cdn.). The balance of economic impacts result from the provision of goods and services such as bunkering, provisioning, pilotage, moorage, port charges, and repairs and maintenance.

3. The outlook for the B.C./Alaska cruise market is optimistic due to the following factors:

   a. As the overall cruise ship industry expands, it will create a larger population of experienced cruisers which is the primary market for B.C./Alaska cruises.

   b. The aging of the North American population will result in an increase in the number of potential customers for the Alaska market which caters primarily to an elderly clientele.

   c. The B.C./Alaska cruise is presently one of the most profitable cruise destinations.

d. There is a high degree of passenger satisfaction with B.C./Alaska cruisers.

Based on the industry representatives contacted, the B.C./Alaska cruise market, in terms of the number of passengers handled, is projected to grow at a rate of about 6% per year over the next five years.

D. SUITABILITY OF B.C. PORTS AS GATEWAY PORTS

At the present time, Vancouver is the only gateway or home port in B.C. for large cruise vessels while Prince Rupert is a gateway port for the smaller Alaska bound vessels. Based on the criteria established by cruise lines for gateway ports, most ports in B.C., other than Vancouver, are not presently able to meet the requirements of large cruise vessels. The major constraint facing most B.C. ports is the lack of sufficient air access to handle the large volume of passengers that must be transported in a very short period of time.

Vancouver, however, competes with Seattle as a southern gateway port for B.C./Alaska cruises. The major strengths of Vancouver as compared to Seattle as a gateway port for Alaska cruises are as follows:

1. The current Passenger Shipping Act prevents foreign flag cruise lines from undertaking one-way trips to Alaska from other U.S. ports.

2. Vancouver has greater appeal to Alaska cruise passengers than Seattle.

3. Vancouver is closer to Alaska than Seattle, thereby reducing fuel costs and sailing times.

4. The provision of a foreign port in the cruise itinerary is viewed as a positive marketing feature of the Alaska cruise.

5. The new terminal facilities in Vancouver are unique and more aesthetically pleasing compared to most other U.S. ports on the West Coast.

The major constraints of Vancouver as a gateway port are as follows:

1. There is the lack of sufficient and economical air links at the Vancouver International Airport.

2. Considerable pressure is being exerted by U.S. ports and Alaska to modify the Passenger Shipping Act.

3. There exists concerns by cruise lines over the lack of sufficient capacity at the new Canada Place cruise ship terminal in Vancouver at peak periods.

4. There exists a number of bottlenecks in the current layout of the Canada Place Cruise Terminal.

5. Bunker fuel and diesel fuel prices are higher in B.C. than in the U.S. due partially to a provincial sales tax on fuel.

At the present time, the advantages of Vancouver as a gateway port appear to outweigh the disadvantages.

One of the major threats facing Vancouver is the negative impact of the proposed Bill C-52. The expanded definition of "coasting trade" contained in the proposed Bill C-52 will have a serious negative impact on the existing Alaska/B.C. cruise industry. The major impacts will be an increase in the excise duty and the degree of licencing required by foreign flag vessels used for Alaska cruises. In addition, there are indications that the Ministry of Finance may enforce the payment of duty on all cruise vessels that make round trip cruises from Vancouver to Alaska.

Furthermore, due to the change in the definition of the "coasting trade" proposed in Bill C-52, regulations CRC 1451 and 1452 of the Canadian Shipping Act would be extended to foreign flag vessels, thereby increasing the current operating costs of vessels used for B.C./Alaska cruises. CRC 1452 stipulates that foreign-flag vessels used for Alaska cruises will have to comply with Canadian Ship Safety standards. In addition, CRC 1451 requires that Alaska vessels carry Commonwealth certificated officers for some positions and at least two Canadian engineers on board.

Another major threat facing Vancouver consists of changes to the Passenger Shipping Act which would intensify the degree of competition between Seattle and Vancouver as gateway ports. Prince Rupert faces a similar threat from Alaska gateway ports if the Passenger Shipping Act is modified. The current consensus, however, is that the Passenger Shipping Act is not likely to be modified in the short-term due to the strong opposition to change by the U.S. maritime unions. The current legislation in Canada presently discourages the use of B.C. ports as gateway ports for B.C./Alaska cruises.

E. ADDITIONAL B.C. PORTS OF CALL FOR ALASKA CRUISES

A summary of the overall strengths and weaknesses of B.C. ports as additional ports of call for Alaska luxury cruise ships is provided below:

Strengths

1. Ports such as Vancouver and Victoria can offer an urban experience to complement the wilderness experience of the Alaska cruise.

2. B.C. ports can provide a "foreign" experience to passengers.

3. B.C. ports can provide active excursions (e.g., fishing and golfing) to complement the passive excursions in Alaska.

4. B.C. ports also have unique aspects such as an Indian heritage that are of interest to cruise passengers.

Constraints

1. The ports on the southern B.C. coast are not positioned logistically for the existing short, seven day cruises to Alaska because they are located too close to the embarkation port of Vancouver.

2. There are insufficient on-shore attractions and tours, especially in most northern B.C. ports, to meet the needs of cruise passengers.

3. Alaska is the primary destination for cruise passengers.

4. The reputation of B.C. ports, other than Vancouver and Victoria, is not sufficiently known to North American cruise passengers.

5. The level of awareness of most cruise lines regarding the unique features of B.C. ports is low.

6. The two major luxury cruise lines serving the Alaska market, Holland American and Princess, have extensive ownership interests in land-based tour companies and on-shore attractions in Alaska. As a result, these cruise lines are reluctant to divert the present traffic from their land based attractions in Alaska to B.C. ports.

In summary, the opportunities in the short-term to obtain additional B.C. ports of call from cruise vessels currently serving the luxury Alaska market are limited. The major constraints that must be overcome are the lack of awareness of B.C. ports and the present focus on Alaska as the primary destination.

In the medium to long term, however, there exists opportunities to participate in the current Alaska luxury market segment if the awareness and appeal of B.C. ports is increased. As the overall cruise market expands and matures, there will be a need to establish more diversified and varied itineraries. Consequently, the timing is appropriate now for B.C. ports to embark on a

marketing and development program to penetrate the growing luxury cruise market segment.

F. PRE AND POST CRUISE TOUR OPPORTUNITIES

Our findings and conclusions regarding the opportunities to increase the sale of pre and post tours in B.C. to Alaska cruise passengers are as follows:

1. The current trend in the overall cruise industry is to offer a combined cruise and land package.

   The major advantages to be gained from offering a cruise plus land combination are as follows:

   a. A combined land and cruise package caters to the growing preference of the consumer for a multi-destination experience.

   b. By adding a land tour, a larger potential market is tapped because the demand for land packages is different from, and considerably greater than, the current demand for cruise packages.

   c. A combined cruise plus land package is all-inclusive and, therefore, convenient for consumers to purchase.

2. A considerable opportunity exists to increase the current number of pre and post cruise tours sold in B.C.

   Approximately 86% of the cruise lines contacted indicated that there was either "some" or "lots" of potential to increase the sales of pre and post cruise tours for cruise passengers embarking from Vancouver.

3. The cruise lines contacted indicated that the greatest potential for pre and post cruise tours exists for a combined Vancouver/Victoria package.

In summary, there is an immediate opportunity to capitalize on the existing Alaska/B.C. cruise market by increasing the number and type of pre and post cruise tours sold in B.C. While the initial demand is primarily for tours in Vancouver, Victoria and the Rockies, there also exists potential in the long-term to sell tours to other destinations in B.C.

G. OPPORTUNITIES FOR CRUISES BASED SOLELY IN B.C.

The scope of this study did not include primary market research to determine the demand for cruises based solely in B.C. waters. Primary market research consisting of a survey of B.C. residents and tourists is required before an accurate estimate of the size of the market can be developed. In order to obtain an indication of the market potential for B.C. cruises, however, we contacted most of the major cruise lines in North America to obtain their perception of the market potential and whether or not they would be interested in undertaking cruises based primarily in B.C. waters.

Based on the cruise lines contacted, our major findings regarding the potential to establish cruises based solely on B.C. as the cruise destination are summarized below:

Adventure Cruises

1. A number of the adventure cruise lines contacted indicated that potential exists to establish cruises based on the extensive fjord system along B.C.'s coast and the Queen Charlotte Islands.

2. The major target markets for pocket or adventure cruises in B.C. waters are California, Southeastern U.S., U.S. Pacific Northwest and Western Canada.

Economy Cruises

3. The cruise lines contacted indicated that there exists potential to establish a 3 to 4 day Seattle/B.C. cruise in the medium to long term.

In summary, the greatest demand exists for adventure cruises. The size of boat that should be used to penetrate this market segment is a vessel with a capacity of 100 to 250 passengers. These adventure cruises should focus on destinations such as Queen Charlotte Islands, Bella Bella and Desolation Sound. The emphasis should be placed on exploring B.C. natural attractions and include activities such as canoeing, rafting, hiking, horseback riding, and golfing.

In the medium term, however, there exist potential to market economy cruises that could consist of cruises to places such as Vancouver, Victoria, Nanaimo, and Campbell River. These cruises should be shorter in length (3-4 days) and combined with a 3-4 day land package. The type of vessel utilized should have a capacity of between 300 to 700 passengers. The focus of these cruises should be dining, shopping and exploring the tourist attractions at each port of call.

Estimated Market Size for B.C. Cruises

The potential number of cruises that could be sold in B.C. is estimated to be approximately 5,000 in the short term and increase to 20,000 in the long term. Based on the this market estimate, the adventure cruise market in B.C. could support at least one 150 passenger vessel in the short term and approximately 3 such vessels in the long term. There also exists potential for between 1 to 2 economy cruise vessels in the long term with a passenger capacity of between 300 to 700 passengers.

Based on an average per diem of $250 for adventure cruises and $250 for economy cruises, the potential industry revenues that could be obtained from

B.C. based cruises is estimated to be approximately $7 million per year in the short term and increase to over $20 million per year in the long term.

Legislative and Economic Constraints

The development of cruises based in B.C. could be undertaken using foreign flag vessels or Canadian flag vessels. At the present time, however, there appear to exist a number of economic and legislative constraints to the use of either foreign-flag vessels or Canadian-flag vessels as shown below:

Foreign-Flag Vessels

1. Bill C-52, as proposed, does not provide long term security of access to smaller foreign-flag vessels wishing to undertake cruises solely in B.C.

   Foreign-flag vessels of less than 250 berths can only obtain an annual licence to operate in B.C. subject to the lack of availability of Canadian-flag vessels. As a result, foreign-flag pocket vessels wishing to establish cruises in B.C. are being encouraged to use U.S. gateway ports.

2. Another constraint to small foreign-flag vessels wishing to offer cruises in B.C. is the high cost of pilotage fees on a per passenger basis.

3. A third constraint to attracting foreign-flag vessels to B.C. is the high cost of repositioning the vessels to warmer destinations in the off-season.

Canadian-Flag Vessels

1. The Canadian standards of ship construction and maintenance are higher than those applied to foreign-flag vessels, and thereby result in higher capital and operating costs.

2. Canadian wages are higher than the wages paid on most foreign-flag vessels. Furthermore, Canadian wages must be paid even when Canadian-flag vessels are deployed in international destinations in the off-season.

3. Due to higher wage and operating costs, it would be difficult for a Canadian-flag vessel to compete with foreign-flag vessels in the off-season when the vessel is redeployed to destinations outside of Canada.

4. It is difficult for Canadian companies to obtain public or private financing for the purchase or construction of cruise vessels.

The marine legislation in Canada has been designed to protect Canadian-flag vessels. However, given the higher operating costs and the lack of success of Canadian flag vessels in the past, a viability study should be undertaken to determine whether the existing legislation is necessary to protect the local cruise market for Canadian flag vessels. If the viability study indicates that Canadian flag vessels can be viable, then the necessary steps should be undertaken to redesign the legislation to allow Canadian flag vessels to be more competitive with foreign flag vessels.

However, if the study results indicate that Canadian flag vessels are not viable for B.C. cruises, then the existing legislation must be revised in order to encourage foreign flag vessels to offer B.C. cruises. At the present time, the legislation in Canada discourages foreign flag as well as Canadian flag vessels which is a major constraint to the development of a cruise industry in B.C. waters.

Canadian marine legislation must recognize that the cruise industry is international in nature and that ships must be deployed in different ports of the world at different times in the year. As a result, cruise ships that operate in B.C. during the summer season must also be able to operate viably

in other parts of the world for the remainder of the year if they are to compete in the international marketplace.

H. DEVELOPMENT STRATEGY

A summary of the development strategy that should be employed by each B.C. port is provided in Table I. The primary and secondary target market for each port is identified. In addition, we have indicated the specific development priorities for each port.

As shown in Table 1, highest priority should be given to the promotion of B.C. ports while the development of tours and attractions of interest to cruise passengers is the second priority. For most B.C. ports, therefore, the improvement of port facilities should be a low priority because most cruise lines, even larger vessels, can anchor nearby and lighter their passengers ashore if there exist sufficient attractions for their passengers.

The following paragraphs summarize the steps comprising the development strategy required by B.C. ports to capitalize on the cruise ship industry in B.C.:

1. Increase the number of pre and post tours sold in B.C.

The major steps required to increase the current number of pre and post cruise tours sold in B.C. are as follows:

1.1 A directory of B.C. pre and post cruise tours should be developed.

1.2 An aggressive marketing effort should be undertaken by C.I.A.B.C. to increase the sale of pre and post tours.

Accordingly, the directory of B.C. pre and post cruise tours should be sent by C.I.A.B.C. to each cruise line currently serving the Alaska market.

TABLE I

DEVELOPMENT STRATEGY FOR B.C. PORTS

Port	Target Markets		Development Priorities		
	Primary	Secondary	Port Promotion	Tours and Attractions	Port Facilities
Port Hardy	Alaska luxury cruises embarking from U.S. ports Adventure Cruises	Alaska luxury cruise embarking from Vancouver Economy cruises	1	2	3
Alert Bay	Alaska luxury cruises embarking from U.S. ports Adventure Cruises	Alaska luxury cruises embarking from Vancouver	1	2	3
Campbell River	Alaska luxury cruises embarking from U.S. ports Adventure Cruises	Alaska luxury cruises embarking from Vancouver Economy cruises	1	3	2
Nanaimo	Alaska luxury cruises embarking from U.S. ports Economy Cruises	Alaska luxury vessels embarking from Vancouver Adventure Cruises	1	2	3
Victoria	Alaska luxury cruises embarking from U.S. ports	Alaska economy cruises embarking from Vancouver Economy cruises	1	3	2
Vancouver	Alaska luxury cruises embarking from B.C.	Alaska cruises embarking from from U.S. ports	1	2	3
New Westminster	Economy cruises Adventure cruises	Alaska cruises embarking from B.C.	1	2	3
Powell River	Alaska luxury cruises embarking from U.S. ports Adventure cruises	Economy cruises Alaska cruises embarking from Vancouver	1	2	3
Squamish	Adventure cruises	Economy cruises Alaska luxury cruises	1	3	2
Bella Bella	Adventure cruises	Alaska luxury cruises embarking	1	2	3
Kitimat	Adventure cruises	Alaska luxury cruises	1	2	3
Stewart	Adventure cruise	Alaska luxury cruises	1	2	3
Prince Rupert	Adventure cruises	Economy cruises	1	3	2
Queen Charlotte Islands	Adventure Cruises	Alaska luxury cruises	3	2	1

1.3 The directory of pre and post cruise tours should also be sent to all travel agents in North America that specialize in cruise packages sales.

The benefits to be achieved are substantial. As an illustration, if 20% of the current expenditures of $80.4 million by cruise passengers on pre and post tours in Alaska in 1986 could be diverted to B.C., the incremental tourism revenues in B.C. would be approximately $16 million.

2. Retain the dominance of B.C. ports as gateway ports for Alaska cruises.

The approach required should be to ensure that the shift to a U.S. gateway port for the Alaska season would be an unattractive proposition even with the legislative prohibition lifted. The specific steps that should be undertaken to retain the Alaska cruise industry by the B.C. gateway ports of Vancouver and Prince Rupert are as follows:

Vancouver

2.1 Increase the degree of service to cruise lines by resolving the peaks in berth usage and air lift capacity that occur in Vancouver during the weekends.

Some alternative methods of resolving this problem are:

a. Increase the promotion of pre and post cruise tour packages to disperse the arrival and departure of passengers.

b. Provide additional berth capacity at the Port of Vancouver.

c. Increase the current air lift capacity of the Vancouver International Airport.

2.2 Ensure that the charges of the Port of Vancouver remain competitive with Seattle.

2.3 Maximize the competitive advantage of Vancouver through the maintenance and development of high-quality terminal and tourist infrastructure facilities.

2.4 Provide an opportunity for the cruise lines to become functionally and commercially involved in the infrastructure so that a change of port would be operationally and commercially disruptive for them.

This could be achieved by encouraging the ownership of pre and post cruise tour operations and facilities in B.C. and the negotiation of long term terminal lease and operating contracts with the Port of Vancouver.

2.5 Increase the recognition and acceptance by port management of the role of the Chamber of Shipping of British Columbia and the Northwest Cruise-Ship Operators Association.

Prince Rupert

2.6 Consideration should be given to establishing berthage in closer proximity to the downtown area.

2.7 The extent and diversity of on-shore attractions must be increased.

2.8 Port charges should remain competitive with Alaska ports.

2.9 Encourage the ownership by cruise lines of pre and post cruise tour facilities in Prince Rupert and the

negotiation of long term lease and operating contracts for port facilities.

2.10 Increase the awareness and receptivity of the community to the benefits of the cruise ship industry.

The legislative and regulatory changes that must be undertaken to protect the existing Alaskan cruise ship traffic for B.C. gateway ports are as follows:

2.11 Action must be undertaken immediately to amend the proposed Bill C-52.

The amendment required to Bill C-52 should allow for a geographical exemption from the licensing procedures for foreign-flag cruise vessels and non-duty-paid Canadian vessels in B.C. A comparable exemption from excise duty and taxes should also be sought.

2.12 In order to prevent significant increases in current operating costs, regulations CRC 1451 and 1452 of the Canada Shipping Act should be amended to ensure that they will not apply to B.C./Alaska cruises which were not previously subject to these provisions.

These amendments should ensure that Alaska cruise vessels will not have to meet Canadian ship safety standards or have to carry two Canadian engineers on board.

2.13 If a change in the Passenger Shipping Act is imminent, the provincial tax on bunker fuel oil for international trade vessels should be eliminated.

2.14 On behalf of B.C. ports, the Cruise Industry Association of B.C. should be responsible for initiating the changes

required to the existing and proposed marine legislation in Canada.

2.15 The Cruise Industry Association of B.C. should also be responsible for monitoring changes in the Passenger Shipping Act and other U.S. maritime legislation.

3. Increase the number of B.C. port of calls by Alaska cruise vessels.

The key factor to increasing the number of B.C. ports of call by Alaska cruise passengers is to increase the awareness and appeal of B.C. ports by the American public. The sequence of steps required for B.C. to capitalize on the existing Alaska cruise market are as follows:

General

3.1 The level of awareness of cruise lines regarding the unique features of B.C. ports must be increased.

To do so, the manual of B.C. Ports and Cruise Destinations that is currently being prepared should be distributed to all major cruise lines based in North America. In addition to this manual, which is factual and descriptive in nature, a more sales-oriented booklet providing visual descriptions of B.C. ports should be prepared and sent simultaneously to the cruise lines.

3.2 An aggressive marketing effort should be undertaken by the Cruise Industry Association of B.C. (C.I.A.B.C.) to increase the number of B.C. port of calls by Alaska cruise vessels.

The marketing of B.C. ports should be undertaken by C.I.A.B.C. rather than the ports individually in order to maximize the efficiency and reduce the costs of a

promotion program. The major components of the marketing program that should be undertaken by C.I.A.B.C. are as follows:

a. The most effective method of promoting B.C. ports is for the C.I.A.B.C. to contact the cruise lines directly through personal visits and telephone contacts.

b. C.I.A.B.C. regularly should also attend cruise industry trade shows such as the annual Seatrade Cruise Shipping Conference.

3.3 In order to increase the awareness of B.C. ports, an advertising and promotion campaign must be initiated by C.I.A.B.C.

The most effective means of increasing the awareness of B.C. ports are as follows:

a. Develop and distribute a brochure of B.C. ports to all travel agents in North American that specialize in selling cruises.

b. Develop a video to be shown on all cruise ships that currently travel to Alaska.

c. Increase the references made to B.C. cruising areas (such as the extensive fjord system in B.C.) in the general image advertising undertaken by Tourism B.C.

Luxury Cruise Market

3.4 In order to increase the number of B.C. port-of-call visits made by the Alaska luxury cruise vessels, greater emphasis should be devoted to contacting and promoting cruise lines, other than Holland America and Princess, that do not have extensive ownership interests in Alaska land-based attractions and tour operators.

3.5 In order to encourage cruise lines such as Holland America and Princess Tours to utilize B.C. ports of call, joint ventures to establish and operate on-shore excursions should be proposed to these cruise lines.

As an illustration, the participation of one of these two cruise lines in the ownership and development of the fishing museum in Prince Rupert is an example of a joint venture that could be proposed to encourage these cruise lines to add Prince Rupert as a port of call.

3.6 Top priority should also be given to promoting B.C. ports to new cruise lines that have just recently, or are considering, entering the Alaska cruise market because they have not yet established a fixed itinerary for their cruises.

3.7 For cruise lines that offer seven-day round trip or one-way Alaska cruises embarking from Vancouver, greatest emphasis should be placed on offering ports in northern B.C. as a replacement for Alaskan ports because they are positioned more strategically along the route than ports in southern B.C.

3.8 The major targets markets that should be promoted for southern B.C. ports are the following:

a. Alaska cruises embarking from Vancouver that offer cruise longer than seven days because more time is available to add a B.C. port.

b. Alaska cruises embarking from San Francisco and Seattle because southern B.C. ports are strategically positioned along their route.

The ports in southern B.C. that presently cater to this market are Vancouver, Victoria and Port Hardy. However, other ports such as Nanaimo, Alert Bay, Powell River and Campbell River could potentially serve this market segment.

3.9 In order to penetrate the Alaska luxury market, the primary emphasis of B.C. ports should be to develop additional tours and on-shore attractions rather than improving berthing facilities.

The existence of on-shore attractions are one of the most important factors utilized by cruise lines in the luxury market segment to select ports of call. The specific steps that should be taken by B.C. ports in order to cater to the needs of cruise lines, are as follows:

a. The establishment of a welcoming committee in each port to greet each cruise ship.

b. The development of at least five tours in each port that cruise passengers can take.

c. The extension of opening hours of retail shops, restaurants and attractions in the port to

correspond with visits of cruise ship passengers.

d. The establishment of a central contact in the community to coordinate the tours and attractions and to liaise with the cruise lines.

e. The publication and distribution of brochures to cruise passengers of things to see and do in the community.

f. The development of local entertainment such as dancers, singing performances, and contests (e.g., ball games) to make cruise passengers feel welcome in the community.

3.10 The charges of B.C. ports should remain competitive with Alaska ports.

Adventure Cruises

3.11 In order to expand the adventure segment of the Alaska cruise market, top priority should be placed on a attracting additional adventure cruise lines to be based in B.C. ports.

3.12 The major features of B.C. that should be employed to promote the adventure cruise market are as follows:

a. Queen Charlotte Islands.

b. The extensive fjord systems near Bella Bella and Desolation Sound.

c. Abundant wildlife and marine life.

d. Native heritage.

e. Activities such as hiking, golfing, fishing, scuba diving, and horseback riding.

3.13 High priority should be given to promoting the northern ports in B.C. to this market segment because they are close to Alaska which is the primary destination for adventure cruises.

3.14 The Queen Charlotte Islands should be developed as a key attraction for the Alaska adventure cruise market.

Due to the restrictions and difficulties in establishing a land-based tourism infrastructure in the Queen Charlotte Islands, small cruise ships represent one of the most appropriate methods of providing tourists with an opportunity to experience areas such as the South Morseby area.

4. Establish cruises based solely in B.C. waters.

The development strategy that should be employed with regard to the establishment of B.C. based cruises is as follows:

Adventure Cruises

1. More detailed market research should be undertaken to quantify the size of the market for adventure as well as economy cruises based solely in B.C. waters.

The scope of this study did not include primary market research of the market for B.C. cruises. However, primary market research consisting of a survey of a sample the Canadian and U.S. population

is required in order to develop accurate market estimates for B.C.-based cruises.

2. According to the cruise lines contacted, the most immediate opportunity for the B.C.-based cruises is to promote the development of adventure cruises.

3. In order to promote the development of B.C.-based adventure cruises, the awareness of existing adventure cruise lines of cruise destinations in B.C. must be increased.

   Accordingly, the manual entitled, B.C. Ports and Cruise Destinations, should be sent to all adventure cruise lines in North America.

4. The major cruising destinations in B.C. that should be promoted initially are the Queen Charlotte Islands and the extensive fjords system along B.C. north coast, especially the areas near Bella Bella and Desolation Sound.

5. The major target market for B.C.-based adventure cruises is California while secondary markets include the southeastern U.S., U.S. Pacific Northwest, and Canada.

6. The adventure cruises based in B.C. should feature outdoor and active port of call excursions in order to cater to the more active cruise passenger.

7. The target market should be elderly, affluent, experienced cruisers, because this market prefers smaller ships. In order to be viable, the per diem charged must also be high.

Economy Cruises

8. In the medium term, the development of mini 3 - 4 day Seattle/B.C. economy cruises should be encouraged.

   To do so, the manual entitled, B.C. Ports and Cruise Destinations, should be sent to all cruise lines that currently offer economy cruises as well as the major luxury cruise lines that will have excess ships once the new ships under construction are completed.

9. The major target market for the 3 to 4-day Seattle/B.C. cruise is the population base within 2 hours flying time of the embarkation port.

   The embarkation port for the 3 to 4-day cruises could be Seattle or Vancouver, although Seattle would be favoured due to its lower air fares for U.S. markets.

10. The major target market for the 3 to 4-day cruise would be first time cruisers.

    In order to appeal to as broad a market as possible, the per diem rates should be lower than the rates charged by the luxury cruise market segment.

In order to accelerate the development of the market for cruises based solely in B.C. waters, the existing legislation and regulatory environment must be changed. The specific steps required are as follows:

1. A detailed viability study of Canadian-flag cruise vessels should be undertaken in order to determine whether there is a need to continue with legislation to protect Canadian-flag vessels.

   This viability analysis should include the following components:

a. The comparative cost of a new cruise vessel built in Canadian and overseas ship yards.

b. The comparative costs and viability of a duty-paid Canadian-flag cruise ship.

c. The comparative costs and viability of a non-duty-paid Canadian-flag cruise ship.

As part of the study, an assessment should be made of the comparative costs and viability of operating a cruise vessel under the Canadian second register proposal (presently under investigation by Transport Canada). This proposal seeks to establish a second registry whereby Canadian ships in international trade would be allowed to operate in a tax-exempt environment.

2. If the study indicates that Canadian flag vessels are viable for B.C. cruises, the existing legislation should be revised to enable Canadian flag vessels to be competitive with foreign flag vessels.

Some of the specific changes required are as follows:

a. In order to reduce the capital costs of ship modifications, Transport Canada should accept international marine standards of structural fire protection for foreign vessels that are being purchased for use as Canadian-flag vessels.

b. Transport Canada should allow internationally recognized classification societies to perform surveys in other countries for Transport Canada on an agency basis to facilitate the purchase of foreign-flag vessels for transfer to Canadian registry.

In addition, greater attention must be given to providing financing for the purchase of cruise vessels by Canadian Companies. A number of proponents are currently attempting to establish B.C. based cruises but are constrained by the lack of financing.

If the viability study indicates that Canadian flag vessels are not viable, the existing legislation in Canada must be revised to encourage foreign flag vessels to operate cruises solely in B.C. waters. The specific legislative and regulatory changes required are as follows:

1. Immediate attention must be given to amending Bill C-52 before it is proclaimed.

   The amendment required is a geographical exemption from the licencing procedures for foreign-flag cruise vessels and non-duty-paid Canadian vessels in B.C. A comparable exemption from existing duty and taxes should also be obtained.

2. The Department of Employment and Immigration should amend the existing employment regulations to allow foreign-flag vessels that are seasonally based in B.C. waters to employ non-Canadian labour.

   Provision should be made, however, for the first right-of-access for Canadians to these positions but at the prevailing wage rates and conditions on-board foreign-flag vessels.

3. The Pacific Pilotage Authority should be requested to develop a method to reduce the pilotage charges for small cruise vessels. This change would facilitate the development of the adventure cruise segment of the industry.

4. The concept of operating a foreign-flag cruise vessel under Canadian ownership within the International Shipping Corporation concept, as recommended by the Sletmo Task Force, should be considered. This concept provides tax-exempt status for Canadian companies

established to own and operate foreign-flag vessels in international trade.